INFORMATION BULLETIN

2007-3
June 1, 2007

Ministerial Statement Concerning the Government's 2007-2008 Budgetary Policy

Minister of Finance, Minister of Government Services, Minister responsible for Government Administration and Chair of the Conseil du trésor Monique Jérôme-Forget announced today, in a ministerial statement, amendments to the government's 2007-2008 budgetary policy.

With this ministerial statement, Ms. Jérôme-Forget tabled, in the National Assembly, additional information and adjustments to the 2007-2008 financial framework.

The purpose of this information bulletin is to disclose the ministerial statement and the accompanying documents.

The French and English versions of this bulletin are available on the ministère des Finances website at : www.finances.gouv.qc.ca

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Finances Québec

Ministerial Statement

by

Monique Jérôme-Forget
Minister of Finance
Minister of Government Services
Minister responsible for Government Administration
Chair of the Conseil du trésor

Concerning the Government's 2007-2008 Budgetary Policy

June 1, 2007

Mr. President:

I wish to make a statement before the National Assembly today that amends certain aspects of the government's budgetary policy.

Last Thursday, I read the 2007-2008 Budget Speech, which presented our overall budgetary vision. A vision in which Québec has confidence in its resources and determinedly takes up the challenges necessary to ensure a more prosperous future. The budget I tabled was that of a minority government that wants to work with the Opposition, in accordance with the wishes of the population.

In the budget measures, we took into account the priorities expressed by Quebecers that is also reflected in the appropriations allocated to the various departments. As a reminder, health funding was increased by 6%, and education funding by 5%.

The budget was intended to unify and sought to provide a concrete response to the priorities of Québec society as a whole. I sincerely hoped that it would rally the support of a majority of MNAs.

As you know, that did not happen. The message we received is that more must be done or done differently.

Before the budget was tabled, I met with the opposition parties to ascertain their priorities. Unfortunately, in the case of the Action démocratique du Québec, the decision was made weeks ago to vote against the budget regardless of the measures in it. As for the Parti québécois, I had underestimated the scope of its demands.

Since the tabling of the budget, we have worked to find the best solution to the current situation and reconcile the various positions, in the interest of Québec. I want to commend, in particular, the Parti québécois for its openness. I also want to mention the support of the Premier and emphasize the leadership demonstrated by him.

I am announcing that we will increase spending for 2007-2008 by $111 million relative to the budget I tabled on May 24.

Thus,

— an additional $60 million will enable more seniors to remain in the living environment of their choice and more family medicine groups to be created;

— another $30 million will be allocated to help students with learning difficulties; and, lastly

— $21 million will go exclusively to the resource regions so that they can diversify their economy and support the innovation projects of their businesses.

With these new investments, we will be able to improve home care, we will provide adequate assistance to more young people experiencing difficulties in school and we will bolster support for our resource regions.

These amounts are in addition to those already earmarked in the budget. The appropriations of the departments concerned will be increased. In fact, I will table additional appropriations before the National Assembly in a few minutes, during the period for tabling documents.

Our government pledged to maintain a balanced budget. It is therefore imperative to adjust government revenue policies in order to fund this new spending.

I am announcing that we will impose an additional income tax contribution on financial institutions and oil refining companies. Their income tax rate will be raised immediately from 9.9% to 11.9%.

I will also have the opportunity to submit, during the tabling period, explanatory texts on this measure and its application details, as well as tables concerning the amended 2007-2008 financial framework.

Today, the government is demonstrating receptiveness and flexibility by making the necessary changes to the budgetary policy we tabled. We fulfilled our role by proposing to the National Assembly a balanced budget that met the needs of Quebecers and the challenges facing Québec. We are doing so by taking responsible action in favour of political stability and economic prosperity in Québec, for the benefit of all Quebecers.

I invite MNAs to take into consideration the measures announced in this statement, which amend the budget tabled on May 24, when they vote on the motion proposing that the National Assembly approve the government's budgetary policy for the 2007-2008 fiscal year.

Thank you, Mr. President.

Tabling of Documents

Monique Jérôme-Forget
Minister of Finance
Minister of Government Services
Minister responsible for Government Administration
Chair of the Conseil du trésor

Concerning the Government's 2007-2008 Budgetary Policy

June 1, 2007

Additional Information on the Revenue Measure Announced in the Ministerial Statement Concerning the Government's 2007-2008 Budgetary Policy Delivered on June 1, 2007

Increase in the tax rate of financial institutions and oil refining companies

Corporations with an establishment in Québec are subject to income tax on their taxable income, at the current rate of 9.9%.[1]

In the April 21, 2005 Budget Speech, a gradual increase of three percentage points was announced in the tax rate applicable to all corporations. Thus, the tax rate was first increased on January 1, 2006, from 8.9% to the current rate of 9.9%. It will rise to 11.4% as of January 1, 2008, and ultimately reach 11.9% as of January 1, 2009.

Given the additional spending to improve home care for seniors, support students with learning difficulties and promote the economic development of the resource regions, and in order to maintain the government's balanced budget, the tax rate applicable to financial institutions and oil refining companies will be raised immediately by two percentage points, from 9.9% to 11.9%—an increase on the order of 20%. The increase will apply as of the day of this ministerial statement.

The financial institutions targeted by this increase in the tax rate are those subject to the tax on capital payable by financial institutions, namely, banks, savings and credit unions, loan companies, trust companies and corporations dealing in securities.

The term "oil refining company" means any corporation that carries on an oil refining business or that owns or leases property used, by a corporation, partnership or trust with which it is associated, to carry on such a business.

To determine whether a corporation is associated with a partnership or trust during a given taxation year, the presumptions generally applicable in such circumstances will be used. Consequently, the partnership or trust will be considered a corporation all of whose voting shares belong to the members of the partnership or the beneficiaries of the trust income at the end of the taxation year, in proportion to their share of the partnership's or trust's income or loss for the fiscal year ending in the taxation year.[2]

For greater clarity, the increase in the tax rate applicable to oil refining companies will target the companies' total income, not just their income from refining operations.

Where the taxation year of a financial institution or an oil refining company straddles the day of this ministerial statement, the effective tax rate applicable for that taxation year will be a weighted rate reflecting the number of days in the taxation year included in the period preceding that day and in the period beginning on that day.

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1 Canadian-controlled private corporations with paid-up capital below $15 million may take advantage of a lower tax rate—8%—regarding their income eligible for the small business deduction.

2 To that end, the partnership's income will be deemed to be equal to $1 million.

Lastly, the instalments of a financial institution or an oil refining company whose taxation year straddles the day of this ministerial statement will have to be adjusted, in accordance with the standard rules, as of the first instalment following that day, in order to take into account the impact of the higher tax rate.

Adjustments to the 2007-2008 Financial Framework Further to the Ministerial Statement of June 1, 2007

Gouvernement du Québec
Summary of consolidated financial transactions
2007-2008 forecast
(millions of dollars)

	Budget tabled on May 24, 2007	Impact of the ministerial statement	2007-2008 budget
BUDGETARY REVENUE			
Own-source revenue	47 842	111	47 953
Federal transfers	13 174	—	13 174
Total	**61 016**	**111**	**61 127**
BUDGETARY EXPENDITURE			
Program spending	– 53 802	– 111	– 53 913
Debt service	– 7 244	—	– 7 244
Total	**– 61 046**	**– 111**	**– 61 157**
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	**30**	**—**	**30**
Deposit in the Generations Fund	**– 200**	**—**	**– 200**
Use of a part of the budgetary reserve	**200**	**—**	**200**
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**0**	**0**	**0**
Net results of the Generations Fund	**653**	**—**	**653**
CONSOLIDATED BUDGETARY BALANCE	**653**	**—**	**653**
CONSOLIDATED NON-BUDGETARY TRANSACTIONS	**– 1 091**	**—**	**– 1 091**
CONSOLIDATED NET FINANCIAL REQUIREMENTS	**– 438**	**—**	**– 438**
CONSOLIDATED FINANCING TRANSACTIONS			
Change in cash position	6 069	—	6 069
Net borrowings	– 102	—	– 102
Retirements plans sinking fund	– 4 876	—	– 4 876
Generations Fund	– 653	—	– 653
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**438**	**—**	**438**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

Gouvernement du Québec
Budgetary revenue of the Consolidated Revenue Fund
2007-2008 forecast
(millions of dollars)

	Budget tabled on May 24, 2007	Impact of the ministerial statement	2007-2008 budget
OWN-SOURCE REVENUE			
Income and property taxes			
Personal income tax	18 045	—	18 045
Health Services Fund	5 408	—	5 408
Corporate taxes[1]	4 618	111	4 729
	28 071	**111**	**28 182**
Consumption taxes			
Retail taxes	10 020	—	10 020
Fuel	1 701	—	1 701
Tobacco	649	—	649
Alcoholic beverages	438	—	438
	12 808	**—**	**12 808**
Duties and permits			
Motor vehicles	758	—	758
Natural resources	– 46	—	– 46
Other	179	—	179
	891	**—**	**891**
Miscellaneous			
Sales of goods and services	391	—	391
Interest	578	—	578
Fines, forfeitures and recoveries	478	—	478
	1 447	**—**	**1 447**
Revenue from government enterprises			
Hydro-Québec	2 545	—	2 545
Loto-Québec	1 329	—	1 329
Société des alcools du Québec	745	—	745
Other	6	—	6
	4 625	**—**	**4 625**
Total	**47 842**	**111**	**47 953**
FEDERAL TRANSFERS			
Equalization	7 160	—	7 160
Health transfers	3 698	—	3 698
Transfers for post-secondary education and other social programs	1 371	—	1 371
Other programs	945	—	945
Total	**13 174**	**—**	**13 174**
TOTAL BUDGETARY REVENUE	**61 016**	**111**	**61 127**

1 Includes tax on corporate profits, tax on capital and tax on premiums in lieu of the tax on capital for insurance companies, as well as the tax on public services.

Gouvernement du Québec
Budgetary expenditure of the Consolidated Revenue Fund
2007-2008 forecast
(millions of dollars)

	Budget tabled on May 24, 2007	Impact of the ministerial statement	2007-2008P budget
PROGRAM SPENDING BY DEPARTMENT			
Affaires municipales et Régions	1 768.3	21.0	1 789.3
Agriculture, Pêcheries et Alimentation	703.0	—	703.0
Assemblée nationale	105.2	—	105.2
Conseil du trésor et Administration gouvernementale	599.9	—	599.9
Conseil exécutif	316.4	—	316.4
Culture, Communications et Condition féminine	623.8	—	623.8
Développement durable, Environnement et Parcs	194.4	—	194.4
Développement économique, Innovation et Exportation	755.8	—	755.8
Éducation, Loisir et Sport	13 395.2	30.0	13 425.2
Emploi et Solidarité sociale	4 126.5	—	4 126.5
Famille et Aînés	1 803.6	—	1 803.6
Finances (excluding debt service)	159.9	—	159.9
Immigration et Communautés culturelles	111.3	—	111.3
Justice	635.9	—	635.9
Personnes désignées par l'Assemblée nationale	74.3	—	74.3
Relations internationales	116.2	—	116.2
Ressources naturelles et Faune	448.9	—	448.9
Revenu	926.6	—	926.6
Santé et Services sociaux	23 843.2	60.0	23 903.2
Sécurité publique	991.8	—	991.8
Services gouvernementaux	83.6	—	83.6
Tourisme	140.7	—	140.7
Transports	2 074.8	—	2 074.8
Travail	31.7	—	31.7
Subtotal	**54 031.0**	**111.0**	**54 142.0**
Anticipated lapsed appropriations	– 150.0	—	– 150.0
Deferred appropriations in 2008-2009	– 78.8	—	– 78.8
Total	**53 802.2**	**111.0**	**53 913.2**
DEBT SERVICE			
Direct debt service	4 923.0	—	4 923.0
Interest ascribed to the retirement plans	2 321.0	—	2 321.0
Total	**7 244.0**	—	**7 244.0**
TOTAL BUDGETARY EXPENDITURE	**61 046.2**	**111.0**	**61 157.2**